



**Office of Health Plan Administration**

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June 20, 2006

**AGENDA ITEM 6**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** Second Reading – Blue Shield Proposal: Service Area and Benefit Design Alternatives for Certain Exclusive Provider Organization and Direct Contract Counties
- II. PROGRAM:** Health Benefits
- III. STAFF RECOMMENDATION:** Staff recommends that the Board:

1. Approve Blue Shield's proposal to discontinue its HMO plan in five Exclusive Provider Organization counties (Colusa, Lake, Mendocino, Plumas, and Sierra) effective January 1, 2007 and,
2. Defer action on Blue Shield's service area and benefit design alternatives proposal for eight Direct Contract counties (Butte, El Dorado, Glenn, Mariposa, Napa, San Luis Obispo, San Mateo, and Sonoma) for consideration as part of the 2008 rate renewal process.

**IV. INTRODUCTION:**

The outcome of detailed analyses conducted by Blue Shield of California (Blue Shield) indicates that to preserve and promote cost effective health care benefits for as many state and contracting agency enrollees as possible, consideration should be given to modifying the current Blue Shield Health Maintenance Organization (HMO) service area. This modification would include: 1) discontinuing Blue Shield's HMO product in five (5) Exclusive Provider Organization (EPO) counties and limiting the health plans offered in those areas to the CalPERS Self-Funded Preferred Provider Organizations (PPO); and 2) offering a new Blue Shield Point of Service (POS) plan in eight (8) Direct Contract (DC) counties in lieu of an HMO option. This approach will improve pricing for approximately 314,000 members which is 85% of the current Blue Shield membership and impact 4,837 members in the EPO counties and 51,309 members in the DC counties. **Note:** The number of Total Covered Lives (TLCs) in this item differ slightly from those presented in at the last Health Benefits Committee as they have been updated with May 2006 membership data.

## **V. BACKGROUND:**

As a condition of a 3-year exclusive HMO network contract (January 1, 2004 – December 31, 2006), CalPERS required Blue Shield to continue to provide coverage in 40 of the 58 California counties. HMO coverage in these counties had been provided by Blue Shield, PacifiCare, and Health Net prior to the consolidation and 3-year HMO network contract with Blue Shield.

As the exclusive CalPERS HMO network plan, Blue Shield attempted to negotiate contracts (capitation and utilization management requirements) in many counties that had been, and continue to be, resistant to managed care. Most providers would not agree to managed care provisions within their contracts, therefore, to deliver on the CalPERS requirement, it was necessary for Blue Shield to enter into reimbursement agreements on a discounted fee-for-service basis with limited utilization management rights. As a result, the current Blue Shield HMO network is a three-tier delivery system which includes:

- **6 EPO counties** (Colusa, El Dorado, Lake, Mendocino, Plumas, and Sierra) where health care is delivered much like that of a PPO plan – no primary care provider is selected or coordinates specialty referrals and diagnostics, and utilization management is limited primarily to inpatient hospital admissions. There is often only one hospital provider, which limits Blue Shield's ability to negotiate facility reimbursements. Therefore, these facilities tend to be significantly more expensive than the average. There is a limited physician specialty pool so consequently patients seek health care outside of the Blue Shield HMO network, opting into the Blue Shield PPO network.
- **10 DC counties** (Butte, Glenn, Mariposa, Merced, Napa, San Luis Obispo, San Mateo, Santa Barbara, Santa Clara, and Sonoma) where health care is delivered through a primary care provider. However, as with the EPO counties, some physician specialties are limited and hospital options are minimal resulting in reimbursement costs greater than the average.
- **24 managed care counties** (Core HMO) where provider reimbursement agreements are largely based on capitation or per diem methodology, providing the incentive for providers to deliver health care services at the appropriate level and location.

During the past two years, Blue Shield has conducted focused analyses on health care cost drivers. These analyses indicate that 5 of the EPO counties and 8 of the

DC counties are having a disproportionate impact on the health care costs for the CalPERS-Blue Shield network model HMO. These counties are as follows:

**EPO – Colusa, Lake, Mendocino, Plumas, and Sierra**  
**DC – Butte, portions of El Dorado County, Glenn, Mariposa, Napa, San Luis Obispo, San Mateo, and Sonoma**

Blue Shield's data indicate that health care trends in the EPO counties have reached nearly three times the average of the Core HMO counties. Health care trends in DC counties have been nearly double that of Core HMO counties. In addition to the type of reimbursement (discounted fee-for-service) and limited ability to manage utilization, increased costs can also be attributed to minimal membership volume in these counties, limiting CalPERS' purchasing power.

Because continually increasing health care costs in these EPO and DC counties have a substantially negative impact on the HMO network premiums, Blue Shield proposes:

- Discontinuation of its HMO product in 5 of the EPO counties (**Colusa, Lake, Mendocino, Plumas, and Sierra**). This represents 4,837 total covered lives. Note that an HMO option is available in 7 of the 8 Colusa zip codes through Western Health Advantage. In the remaining four counties and Colusa zip codes where no HMO plan is available, state enrollees will access care much like the members in the other 18 California counties (mostly rural) with no HMO option available and qualify for the Rural Health Care Equity Program (RHCEP) administered by the Department of Personnel Administration (DPA); see Attachment 1.
- Introduction of a new Point of Service (POS) plan in lieu of an HMO plan for 8 DC counties (**Butte, El Dorado, Glenn, Mariposa, Napa, San Luis Obispo, San Mateo, and Sonoma**). This represents approximately 51,309 total covered lives, which includes Medicare supplement.<sup>1</sup> Note that a Kaiser HMO option exists in Napa, San Mateo, and Sonoma. The Western Health Advantage HMO is available in some El Dorado county zip codes; see Attachment 1. Also note that since the May 2006 Health Benefits Committee, DPA's official position is that the RHCEP will not apply to the POS plan due to the HMO overlay in benefit design.

Although the proposed service area and plan changes will result in substantially lower premium increases for 24 HMO counties covered by Blue Shield in 2007, CalPERS staff is concerned about having inadequate time to appropriately analyze and consider communication and implementation plans for the proposed POS plan for 2007. However, some 2007 cost savings could still be realized if Blue Shield is allowed to discontinue its HMO plan in the five EPO counties, but maintain the HMO

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<sup>1</sup> Although in the first reading, Blue Shield stated the Medicare supplement was not impacted, further research by their legal staff determined that Blue Shield will be required to establish a new Medicare supplement under their POS plan.

network in the eight DC counties. Staff will provide the specific impact of withdrawing from the 5 EPO counties on 2007 rates at the June 20, 2006, Health Benefits Committee.

## **VI. ANALYSIS:**

### Exclusive Provider Counties (EPO)

The Blue Shield data analysis, verified by staff, indicates that health care costs in EPO counties range from 20% to 100% greater than the average cost of health care in Core HMO counties. In 2005, health care trends were as much as 300% greater than the approximate 8.5% trend experienced in Core HMO counties. Contributing to the high cost of health care are:

- Diagnostics (lab, radiology, etc) -- ordered at rates nearly two times greater than the average per 1,000 members;
- Physician office visits -- more than two times greater than the average per 1,000 members;
- Significantly higher hospital costs per admit (approximately \$19,000 compared to a core-HMO county average of approximately \$13,000);
- More frequent out-of-network utilization of Blue Shield PPO providers.

In its analysis of EPO counties, Blue Shield has determined that neither it nor any other health plan is likely to have much success attempting to direct and manage care in EPO counties due to high unit costs primarily for specialists and hospitals, and CalPERS' limited ability to leverage purchasing power (due to a lower volume of enrollment).

### Direct Contract Counties (DC) and Proposed Point of Service (POS) Plan

The Blue Shield data analysis, verified by staff, indicates that health care costs in 8 DC counties range from 10% to 45% higher than the average cost of health care in Core HMO counties. Health care trends in 2005 were nearly 200% greater than the approximate 8.5% trend in Core HMO counties. As in EPO counties, costs for diagnostic tests and physician office visits are nearly double the utilization in Core HMO counties, and specialty and hospital costs are greater due to fewer options being available as well as limited CalPERS' purchasing power.

Rather than eliminate a health plan offering in the DC counties, Blue Shield proposes to moderate future costs in these counties by replacing its HMO plan with a new Point of Service (POS) plan. This proposed POS product (Attachment 2) is designed to align member incentives to influence appropriate levels of care in the most cost effective location. The benefit design aims to shift enrollee utilization to physician office visits as well as free-standing ambulatory surgery centers (when appropriate), rather than hospital based services.

Comparing Impacts of DC and EPO County Recommendations

The Blue Shield proposal to introduce a new POS plan with separate pricing in 8 counties (**Butte, El Dorado, Glenn, Mariposa, Napa, San Luis Obispo, San Mateo, and Sonoma**) is projected to reduce the overall basic rate by 3.2%.

If Blue Shield is allowed to discontinue its HMO product in the 5 EPO counties (**Colusa, Lake, Mendocino, Plumas, and Sierra**), but maintains the HMO network in the DC counties, the overall basic rate is reduced by 0.69%. Refer to Attachments 3 and 4 for additional illustrative data. Staff will provide the impact on the 2007 rates in the Health Benefits Committee. The following table provides a comparison of the impacts of EPO withdrawal and the DC POS plan.

<b>Impact Issues</b>	<b>EPO Withdrawal Only</b>	<b>POS Plan</b>
# of Counties Affected	5 (Colusa, Lake, Mendocino, Plumas, and Sierra)	8 (Butte, El Dorado, Glenn, Mariposa, Napa, San Luis Obispo, San Mateo, and Sonoma)
# of Members Affected (TCLs)	4,837 3,780 Active 1,057 Retired	51,309 41,971 Active 9,338 Retired
Other HMO Options Available	WHA partial coverage in Colusa	Kaiser in Napa, San Mateo, & Sonoma – WHA partial coverage in El Dorado
PERSelect Available*	Yes	Yes
Eligible for Rural Subsidy	Yes (if no WHA alternative)	No
New Medicare Plan Required	No	Yes
PPO Migration & Risk Impact	Increases premium 0.2%	Decreases premium 0.3%
Impact on BSC Rate Increase	-0.69%	-3.2%

\* Subject to Board approval

**VII. STAFF RECOMMENDATION:**

With the lack of adequate lead time, CalPERS staff has concerns about the feasibility of implementing the Blue Shield POS Plan in 2007. Proposing such a plan change this late in the process poses significant operational challenges and provides inadequate lead time for program development, implementation, and communication, including critical member education. Additionally, because the RHCEP will not apply to the POS plan due to the HMO overlay in benefit design, more members will be financially impacted by the change. Additional solutions for controlling high costs in these communities, to include the Blue Shield proposal to coordinate Regional Councils in these communities, should be evaluated and considered.

Because health care trends in the EPO counties have reached nearly three times the average of the Core HMO counties and acknowledging the substantial challenges with attempting to manage health care costs in these rural communities, CalPERS staff supports Blue Shield's proposal to discontinue its HMO product in the five EPO counties.

Staff recommends that the Board:

1. Approve Blue Shield's proposal to discontinue its HMO plan in five Exclusive Provider Organization counties (Colusa, Lake, Mendocino, Plumas, and Sierra) effective January 1, 2007 and,
2. Defer action on Blue Shield's service area and benefit design alternatives proposal for eight Direct Contract counties (Butte, El Dorado, Glenn, Mariposa, Napa, San Luis Obispo, San Mateo, and Sonoma) for consideration as part of the 2008 rate renewal process.

#### **VIII. STRATEGIC GOAL:**

This item supports Goal X of the strategic plan which states, "Develop and administer quality, sustainable health benefits programs that are responsive to and valued by enrollees and employers."

#### **IX. RESULTS/COSTS**

The CalPERS costs associated with this item are included in the annual budget of the Office of Health Plan Administration.

Staff is available to respond to any questions.

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Attachments